

MICHIGAN PUBLIC POWER AGENCY
Lansing, Michigan

FINANCIAL STATEMENTS

December 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name <i>Michigan Public Power Agency</i>	County <i>Ingham</i>
Fiscal Year End <i>12/31/06</i>	Opinion Date <i>4.12.07</i>	Date Audit Report Submitted to State <i>4.28.07</i>	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☐ YES ☒ NO All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ YES ☒ NO There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ YES ☒ NO The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ YES ☒ NO The local unit has adopted a budget for all required funds.
5. ☐ YES ☒ NO A public hearing on the budget was held in accordance with State statute.
6. ☐ YES ☒ NO The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ YES ☒ NO The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ YES ☒ NO The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ YES ☒ NO The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ YES ☒ NO There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ YES ☒ NO The local unit is free of repeated comments from previous years.
12. ☐ YES ☒ NO The audit opinion is UNQUALIFIED.
13. ☐ YES ☒ NO The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ YES ☒ NO The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ YES ☒ NO To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input type="checkbox"/>	<i>N/A</i>
Other (Describe)	<input type="checkbox"/>	<i>N/A</i>

Certified Public Accountant (Firm Name) <i>Vinchow, Krause & Company, LLP</i>		Telephone Number <i>608.240.2361</i>	
Street Address <i>10 Terrace Ct</i>		City <i>Madison</i>	State <i>WI</i>
Zip <i>53718</i>		License Number <i>1101025951</i>	
Authorizing CPA Signature <i>Russell Hisson</i>		Printed Name <i>Russell Hisson</i>	

MICHIGAN PUBLIC POWER AGENCY

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December 31, 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Michigan Public Power Agency
Lansing, Michigan

We have audited the accompanying combined financial statements of Michigan Public Power Agency (MPPA) as identified in the accompanying table of contents as of and for the year ended December 31, 2006. These combined financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the combined financial position of MPPA as of December 31, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 – 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The financial information on pages 30 – 41 is presented for purposes of additional analysis and is not a required part of the combined financial statements of Michigan Public Power Agency. Such information for the year ended December 31, 2006 has been subjected to the auditing procedures applied in our audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Madison, Wisconsin
April 12, 2007

Virchow, Krause & Company, LLP
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**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006

The management of Michigan Public Power Agency (MPPA) offers all persons interested in the financial position of MPPA this narrative overview and analysis of MPPA's financial performance during the year ending December 31, 2006 and 2005. You are invited to read this narrative in conjunction with MPPA's financial statements.

FINANCIAL HIGHLIGHTS

- MPPA's total net assets increased \$128,581, or 23% from the prior year. This was due to member dues and other revenues in excess of general office operations.
 - MPPA's operating expenses in 2006 were \$9,576,000 lower than in 2005. This is a 7% decrease in operating expenses from the prior year. Most of the decrease was due to decreased transmission expense for the Power Pool Project. This cost reduction was passed on to project participants resulting in a decrease in operating revenues of \$7,245,000 or about 5%. The net effect was an increase in operating income of \$2,330,000 compared to the prior year.
 - Total agency assets increased \$9,740,000 while total liabilities increased \$9,612,000. These are the result of normal operations including the issuance of debt, payment of debt and continuing capital asset improvements and depreciation.
-

OVERVIEW OF THE FINANCIAL STATEMENTS

Michigan Public Power Agency is a public body politic and corporate of the state of Michigan. MPPA was created in 1978 under Act 448 of the Public Acts of Michigan, 1976, as amended. The purpose of MPPA is to oversee the development and operation of various projects to supply electric power and energy to the project members. MPPA has thirteen members, each of which is a municipal corporation in the State of Michigan and owns and operates a municipal electric system.

This annual report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. MPPA is a self-supporting entity and follows proprietary fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Proprietary fund statements offer financial information about the activities and operations of MPPA.

The combined financial statements are designed to provide readers with a broad overview of MPPA's finances, in a manner similar to a private-sector business.

MPPA's operations consist of five power projects:

- Campbell No. 3
- Belle River
- Power Pool
- Combustion Turbine #1
- Dispatch

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

In addition, MPPA members share in the administrative and general costs incurred to operate these projects.

It is very important to note however that due to contractual arrangements, which are the basis of each power project, no monies can be shared between projects. The cash flow of one power project, although combined with all others in the combined financial statement presentation as required by financial reporting rules, cannot and should not be considered available for any other project. Great care should be exercised in evaluating the financial condition of MPPA as a combined entity from the use of the Combined Financial Statements.

- The Combined Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how MPPA's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.
- The Combined Statement of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.
- The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 14 of this report.

MPPA FINANCIAL ANALYSIS

An analysis of MPPA's financial position begins with a review of the Balance Sheet, and the Statement of Revenues, Expenses and Changes in Net Assets report information. These two statements report MPPA's net assets and changes therein. As noted earlier, great care must be taken when evaluating MPPA's financial position and results of operations when using the combined financial presentations due to the legal separation that must be maintained between projects. However, broad patterns and trends may be observed at this level that should lead the reader to study carefully the financial statements of each project.

A summary of MPPA's Combined Balance Sheet is presented below in Table 1. The Combined Statement of Revenues, Expenses and Changes in Net Assets is summarized in Table 2.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006

MPPA FINANCIAL ANALYSIS (cont.)

Table 1
Condensed Balance Sheet

	<u>2006</u>	<u>2005</u>
Current assets	\$ 141,926,154	\$ 134,079,495
Restricted assets	39,754,471	40,574,989
Non-current assets		
Capital assets	239,569,908	236,647,521
Other assets	<u>2,893,591</u>	<u>3,101,915</u>
Total Assets	<u>\$ 424,144,124</u>	<u>\$ 414,403,920</u>
Current liabilities	\$ 42,976,212	\$ 35,538,507
Non-current liabilities		
Deferred revenue to be recognized in future periods	86,717,772	75,464,473
Member Capital	5,653,274	4,792,911
Revenue bonds payable, less current portion	<u>288,109,223</u>	<u>298,048,967</u>
Total Liabilities	<u>423,456,481</u>	<u>413,844,858</u>
Net assets		
Invested in capital assets, net of related debt	(58,980,424)	(73,081,325)
Restricted	26,650,001	8,663,060
Unrestricted	<u>33,018,066</u>	<u>64,977,327</u>
Total Net Assets	<u>687,643</u>	<u>559,062</u>
Total Liabilities and Net Assets	<u>\$ 424,144,124</u>	<u>\$ 414,403,920</u>

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006

MPPA FINANCIAL ANALYSIS (cont.)

Table 2
Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2006	2005
Operating Revenues	\$ 151,009,629	\$ 158,255,279
Non-Operating Revenues	24,935,574	3,435,275
Total Revenues	<u>175,945,203</u>	<u>161,690,554</u>
Depreciation Expense	14,390,325	14,141,068
Other Operating Expenses	113,857,616	123,683,181
Non-Operating Expenses	14,904,263	15,326,386
Total Expenses	<u>143,152,204</u>	<u>153,150,635</u>
Income Before Deferred Revenue	32,792,999	8,539,919
Deferred Revenue to be Recognized in Future Periods Net of Deferred Revenue Recognized in Current Period	<u>(32,664,418)</u>	<u>(8,347,162)</u>
Changes in Net Assets	128,581	192,757
Beginning Net Assets	<u>559,062</u>	<u>366,305</u>
Ending Net Assets	<u>\$ 687,643</u>	<u>\$ 559,062</u>

MPPA uses fund accounting, Federal Energy Regulatory Commission accounting and special utility industry terminology to ensure and demonstrate compliance with finance-related legal requirements.

Campbell No. 3 Project

MPPA jointly owns and operates the Campbell Unit No. 3 electric generation facility with Consumer's Energy. Ten of MPPA's members participate in this project, consisting of a 4.8% undivided ownership interest in the coal-fired generating plant in Ottawa County, Michigan. Operating revenues for 2006 increased by 35% compared to 2005. During the same time period the cost of generated and purchased power increased by 27%.

Belle River Project

With 11 of the member communities participating in this project, MPPA jointly owns and operates the Belle River Power Plant with Detroit Edison. MPPA has a 37.22% undivided ownership interest in Belle River Unit No.1, a coal-fired electric generating unit located in St. Clair County, Michigan. The cost of power decreased by 19% from 2005 to 2006. Sales to participants decreased 10%.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006

MPPA FINANCIAL ANALYSIS (cont.)

Power Pool Project

The Power Pool Project was established to allow member communities to pool their generating resources and electric loads. The Power Pool uses economic dispatch principles in determining the moment-by-moment output of generating resources, along with any purchases of energy from third party resources, so as to obtain the lowest overall electric energy cost for the Power Pool that is reasonably attainable at any given point in time. The group experienced an 8% decrease in sales and a corresponding 9% decrease in operating expenses in 2006 compared to 2005 due primarily to a \$6,000,000 reduction in transmission costs. For 2006 purchased power made up 95% of the Power Pool operating costs. For 2006, the operating revenues of the Power Pool project exceeded the operating costs resulting in the application a deferral of revenue to future periods.

Combustion Turbine #1 Project

MPPA owns and operates the Combustion Turbine #1 Project (CT Project) for the benefit of five of its members. The CT Project is a natural-gas fired combustion turbine peaking generating unit which began producing power in 2002. For the year ended December 31, 2006 this project reported \$316,629 of deferred revenues to be recognized in a future period.

Dispatch Project

The dispatch project is setup to facilitate the purchase of capacity and energy from third parties for sale to certain MPPA members. The activity in 2006 and 2005 was for the benefit of one member of MPPA.

Transmission Project

All current members of MPPA participate in this project. The members of MPPA provided the initial capital needed to purchase an undivided interest in the transmission grid. This has lowered the transmission cost to MPPA and its members.

General Office Operations

MPPA accounts for the general office operations that cannot be attributed to any one specific project in an internal service fund. Member dues are based on the annual budgeted operating costs, with a portion of the operating costs allocated to each project as overhead. The income for the General Office Operations fund was \$128,581 in 2006 compared to an income of \$192,757 in 2005.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006

CAPITAL ASSETS

MPPA's investment in capital assets as of December 31, 2006 amounts to \$239,570,000 (net of accumulated depreciation). This investment in capital assets includes investment in plants, transmission systems, land, buildings, improvements, machinery and equipment. The total increase in MPPA's net investment in capital assets for the year was 1.2%. Each project contributed to this differently. The Campbell No. 3 Project net investment in capital assets increased by 18.2% with increased plant improvement initiatives and annual depreciation. The net investment in the Belle River Project capital assets investment decreased by 3.8% as a result of annual depreciation. The Combustion Turbine Project net investment in capital assets increased by 11.4% as a result capital investment and annual depreciation. The Transmission Project made its initial investment in transmission lines in the amount of \$3,336,000. See Note 5 for additional details.

LONG-TERM DEBT

At December 31, 2006, MPPA had total liabilities outstanding of \$423,529,000 of which \$306,759,000 represents bond payments payable. These remaining principal payments on long-term debt, including current amounts due, are as follows:

Campbell No. 3 Project	\$ 29,316,000
Belle River Project	245,367,000
Combustion Turbine #1 Project	<u>32,076,000</u>
Total	<u>\$ 306,759,000</u>

See Note 6 for additional details.

ECONOMIC CONDITIONS

The 2006 budget was adopted amid steady national and state economies. The member-cities' economies have shown varying amounts of growth in both demand and energy. In order to assist its members in meeting their future power supply requirements, MPPA performs annual planning reviews of load and resource projections for all of its members that request such service. These projections are utilized in preparing the annual budgets and evaluating the need for future capital projects. Because MPPA's members are billed based on actual costs, revenues will fluctuate with operating costs rather than be determined by any set rates.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006

CURRENTLY KNOWN FACTS

MPPA's transmission agreements have undergone changes in the past year. Consumers' Energy has transferred its transmission assets to Michigan Electric Transmission Company (METC), a subsidiary of Consumer's Energy. MPPA has taken legal action that resulted in settlement agreements which require that MPPA's rights under the Consumers transmission Agreement will be honored and performed by METC, or any subsequent purchaser of METC or a substantial portion of the transmission facilities. The settlement agreement also provides for the purchase of additional transmission assets by MPPA. MPPA closed on this purchase in February, 2006, and is now receiving the benefits of this new purchase on behalf of its members. Also in 2006, ITC Holdings, the parent of ITC, purchased the assets of METC. As of the date of this report, MPPA has seen no change in its treatment or ITC's honoring of the agreements with MPPA that were transferred to ITC. Detroit Edison has transferred its transmission system to ITC. MPPA's agreements with Detroit Edison have been assigned by ITC.

CONTACTING MPPA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of MPPA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Michigan Public Power Agency, 809 Centennial Way, Lansing, MI 48917.

MICHIGAN PUBLIC POWER AGENCY

COMBINED BALANCE SHEETS

December 31, 2006

(With Comparative Totals for the Year Ended December 31, 2005)

ASSETS

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	Dispatch Project	Transmission Project	General Office Operation	2006	(Memorandum Only) 2005
CURRENT ASSETS									
Cash and Cash Equivalents									
Project account	\$ 8,480,700	\$ 22,262,975	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,743,675	\$ 24,216,374
Operation and maintenance account	1,139,435	10,127,336	-	5,176,511	21,978	689,923	-	17,155,183	18,360,204
Operation and maintenance reserve account	250,000	-	-	-	-	-	-	250,000	250,000
Fuel reserve account	800,000	-	-	-	-	-	-	800,000	800,000
Other	-	-	7,407,089	-	-	-	673,407	8,080,496	1,496,155
Total Cash and Cash Equivalents	10,670,135	32,390,311	7,407,089	5,176,511	21,978	689,923	673,407	57,029,354	45,122,733
Investments - Project Account									
US Government Agency notes	-	64,139,887	-	-	-	-	-	64,139,887	65,018,030
Accrued interest receivable	39,041	971,410	-	7,464	-	-	-	1,017,915	882,191
Accounts receivable	1,392,340	(837,845)	9,405,904	464,483	487,838	120,518	21,288	11,054,526	14,088,925
Fuel inventory	803,825	4,882,456	-	183,904	-	-	-	5,880,185	6,268,772
Materials and supplies inventory	-	2,570,449	-	233,838	-	-	-	2,804,287	2,698,844
Total Current Assets	12,905,341	104,126,668	16,812,993	6,066,200	509,816	810,441	694,695	141,926,154	134,079,495
RESTRICTED ASSETS									
Debt service account	3,462,863	21,233,490	-	1,728,041	-	-	-	26,424,394	25,756,413
Construction account	5,315,300	-	-	-	-	-	-	5,315,300	6,140,531
Reserve and contingency account	-	8,000,001	-	-	-	-	-	8,000,001	8,663,060
Scholarship fund	-	-	-	-	-	-	14,776	14,776	14,985
Total Restricted Assets	8,778,163	29,233,491	-	1,728,041	-	-	14,776	39,754,471	40,574,989
NON-CURRENT ASSETS									
Capital Assets									
Utility plant in service	52,307,449	452,564,476	2,503,907	29,434,784	-	3,335,511	825,802	540,971,929	525,275,654
Allowance for depreciation	(24,930,390)	(269,905,452)	(2,495,752)	(3,578,337)	-	(18,901)	(473,189)	(301,402,021)	(288,628,133)
Total Capital Assets	27,377,059	182,659,024	8,155	25,856,447	-	3,316,610	352,613	239,569,908	236,647,521
Other Assets									
Deferred bond issue costs - net	374,219	1,850,813	-	668,559	-	-	-	2,893,591	3,101,915
Prepaid long-term lease (deferred obligation)	-	250,000	-	-	-	-	(250,000)	-	-
Total Non-Current Assets	27,751,278	184,759,837	8,155	26,525,006	-	3,316,610	102,613	242,463,499	239,749,436
TOTAL ASSETS	\$ 49,434,782	\$ 318,119,996	\$ 16,821,148	\$ 34,319,247	\$ 509,816	\$ 4,127,051	\$ 812,084	\$ 424,144,124	\$ 414,403,920

MICHIGAN PUBLIC POWER AGENCY

COMBINED BALANCE SHEETS December 31, 2006

(With Comparative Totals for the Year Ended December 31, 2005)

LIABILITIES AND NET ASSETS

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	Dispatch Project	Transmission Project	General Office Operation	2006	(Memorandum Only) 2005
CURRENT LIABILITIES									
Accounts payable and accrued expenses	\$ 2,401,096	\$ 252,309	\$ 12,478,999	\$ 214,942	\$ 502,800	\$ 577,231	\$ 109,655	\$ 16,537,042	\$ 9,767,109
Current Liabilities Payable from Restricted Assets									
Accrued interest payable	692,863	6,258,490	-	823,041	-	-	-	7,774,394	7,991,413
Current portion of revenue bonds	2,770,000	14,975,000	-	905,000	-	-	-	18,650,000	17,765,000
Scholarship fund	-	-	-	-	-	-	14,776	14,776	14,985
Total Current Liabilities Payable from Restricted Assets	3,462,863	21,233,490	-	1,728,041	-	-	14,776	26,439,170	25,771,398
Total Current Liabilities	5,863,959	21,485,799	12,478,999	1,942,983	502,800	577,231	124,441	42,976,212	35,538,507
NON-CURRENT LIABILITIES									
Deferred revenue to be recognized in future periods	17,024,965	66,242,187	2,024,386	1,204,909	7,016	214,309	-	86,717,772	75,464,473
Capital contribution of members	-	-	2,317,763	-	-	3,335,511	-	5,653,274	4,792,911
Revenue bonds payable, less current portion	26,545,858	230,392,010	-	31,171,355	-	-	-	288,109,223	298,048,967
Total Non-Current Liabilities	43,570,823	296,634,197	4,342,149	32,376,264	7,016	3,549,820	-	380,480,269	378,306,351
Total Liabilities	49,434,782	318,119,996	16,821,148	34,319,247	509,816	4,127,051	124,441	423,456,481	413,844,858
NET ASSETS									
Invested in capital assets, net of related debt and obligations	3,750,720	(60,607,173)	8,155	(5,551,349)	-	3,316,610	102,613	(58,980,424)	(73,081,325)
Restricted	2,770,000	22,975,001	-	905,000	-	-	-	26,650,001	26,428,060
Unrestricted	(6,520,720)	37,632,172	(8,155)	4,646,349	-	(3,316,610)	585,030	33,018,066	47,212,327
Total Net Assets	-	-	-	-	-	-	687,643	687,643	559,062
TOTAL LIABILITIES AND NET ASSETS	\$ 49,434,782	\$ 318,119,996	\$ 16,821,148	\$ 34,319,247	\$ 509,816	\$ 4,127,051	\$ 812,084	\$ 424,144,124	\$ 414,403,920

See accompanying notes to financial statements.

MICHIGAN PUBLIC POWER AGENCY

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Year Ended December 31, 2006 (With Comparative Totals for the Year Ended December 31, 2005)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine No.1	Dispatch Project	Transmission Project	General Office Operation	2006	(Memorandum Only) 2005
OPERATING REVENUES									
Sales to participants	\$ 17,153,744	\$ 67,479,432	\$ 57,271,201	\$ 4,715,170	\$ 3,355,360	\$ 178,585	\$ -	\$ 150,153,492	\$ 157,342,040
Allowances for sellbacks	(4,080)	(665,925)	-	-	-	(2,539,624)	-	(3,209,629)	(211,811)
Net sales to participants	17,149,664	66,813,507	57,271,201	4,715,170	3,355,360	(2,361,039)	-	146,943,863	157,130,229
Sales of excess transmission	4,080	665,925	-	-	-	2,590,064	-	3,260,069	211,811
Other	-	-	-	-	-	-	805,697	805,697	913,239
Total Operating Revenues	17,153,744	67,479,432	57,271,201	4,715,170	3,355,360	229,025	805,697	151,009,629	158,255,279
OPERATING EXPENSES									
Cost of Power									
Production	7,001,230	29,687,745	-	1,284,309	-	-	-	37,973,284	42,145,628
Purchased	4,860,205	311,944	54,291,869	72,635	3,244,572	-	-	62,781,225	61,155,030
Total Cost of Power	11,861,435	29,999,689	54,291,869	1,356,944	3,244,572	-	-	100,754,509	103,300,658
Transmission	84,580	1,494,262	826,514	158,971	-	172,724	-	2,737,051	8,774,241
General and administrative	877,030	6,665,329	1,389,470	593,251	110,788	56,301	673,887	10,366,056	11,608,282
Depreciation	1,457,930	11,920,957	519	954,742	-	18,901	37,276	14,390,325	14,141,068
Total Operating Expenses	14,280,975	50,080,237	56,508,372	3,063,908	3,355,360	247,926	711,163	128,247,941	137,824,249
Operating Income (Loss)	2,872,769	17,399,195	762,829	1,651,262	-	(18,901)	94,534	22,761,688	20,431,030
NONOPERATING REVENUES (EXPENSES)									
Interest cost incurred	(1,354,475)	(12,516,980)	(110,370)	(1,646,081)	-	-	-	(15,627,906)	(16,048,810)
Amortization of financing-related costs	(139,704)	813,203	-	(59,515)	-	-	-	613,984	722,424
Investment income	949,297	5,503,823	246,720	298,328	7,016	54,414	34,047	7,093,645	4,790,270
Net change in fair value of investments	-	109,659	-	-	-	-	-	109,659	(1,354,995)
Sale of emissions	1,709,877	16,132,052	-	-	-	-	-	17,841,929	-
Total Nonoperating Revenues (Expenses)	1,164,995	10,041,757	136,350	(1,407,268)	7,016	54,414	34,047	10,031,311	(11,891,111)
Income (Loss) Before Deferred Revenue	4,037,764	27,440,952	899,179	243,994	7,016	35,513	128,581	32,792,999	8,539,919
Deferred revenue to be recognized in future periods	(4,037,764)	(27,440,952)	(899,179)	(243,994)	(7,016)	(35,513)	-	(32,664,418)	(6,868,287)
Deferred revenue recognized in current period	-	-	-	-	-	-	-	-	101,923
CHANGE IN NET ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	128,581	128,581	192,757
NET ASSETS - Beginning of Year	-	-	-	-	-	-	559,062	559,062	366,305
NET ASSETS - END OF YEAR	-	-	-	-	-	-	\$ 687,643	\$ 687,643	\$ 559,062

See accompanying notes to financial statements.

MICHIGAN PUBLIC POWER AGENCY

COMBINED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2006

(With Comparative Totals for the Year Ended December 31, 2005)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	Dispatch Project	Transmission Project	General Office Operation	2006	(Memorandum Only) 2005
CASH FLOWS FROM OPERATING ACTIVITIES									
Received from customers	\$ 15,868,462	\$ 53,617,757	\$ 49,929,352	\$ 4,652,905	\$ 2,960,086	\$ 289,100	\$ 806,131	\$ 128,123,793	\$ 154,712,226
Paid to suppliers for goods and services	(11,665,103)	(41,501,147)	(44,147,368)	(1,822,992)	(2,907,790)	352,889	(365,564)	(102,057,075)	(124,958,346)
Paid to employees for services	(111,580)	(241,197)	(353,366)	(89,797)	(47,930)	(4,683)	(255,499)	(1,104,052)	(1,019,562)
Net Cash Flows From Operating Activities:	4,091,779	11,875,413	5,428,618	2,740,116	4,366	637,306	185,068	24,962,666	28,734,318
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisition and construction of utility plant	(5,689,750)	(3,774,596)	(8,674)	(3,611,046)	-	(3,335,511)	-	(16,419,577)	(4,012,639)
Sale of emissions	1,709,877	16,132,052	-	-	-	-	-	17,841,929	-
Capital contributions of participating members	-	-	860,363	-	-	-	-	860,363	3,214,725
Proceeds from sale of bonds	9,000,000	-	-	-	-	-	-	9,000,000	-
Bond issue costs	(226,285)	-	-	-	-	-	-	(226,285)	-
Premium on bond issue	758,850	-	-	-	-	-	-	758,850	-
Principal payment on revenue bonds	(2,620,000)	(14,275,000)	-	(870,000)	-	-	-	(17,765,000)	(16,935,000)
Interest paid on revenue bonds	(1,201,525)	(12,869,549)	-	(1,663,481)	-	-	-	(15,734,555)	(16,400,305)
Other	-	24,000	(110,370)	-	-	-	(51,430)	(137,800)	(87,573)
Net Cash Flows From Capital and Related Financing Activities	1,731,167	(14,763,093)	741,319	(6,144,527)	-	(3,335,511)	(51,430)	(21,822,075)	(34,220,792)
CASH FLOWS FROM INVESTING ACTIVITIES									
Long-term investments purchased	-	(2,999,900)	-	-	-	-	-	(2,999,900)	(22,000,500)
Long-term investments sold	-	4,000,000	-	-	-	-	-	4,000,000	6,964,077
Investment income	921,422	5,381,380	246,720	300,623	7,016	54,414	33,837	6,945,412	4,525,579
Net Cash Flows From Investing Activities	921,422	6,381,480	246,720	300,623	7,016	54,414	33,837	7,945,512	(10,510,844)
Net Change in Cash and Cash Equivalents	6,744,368	3,493,800	6,416,657	(3,103,788)	11,382	(2,643,791)	167,475	11,086,103	(15,997,318)
CASH AND CASH EQUIVALENTS - Beginning of Year	12,703,930	58,130,002	990,432	10,008,340	10,596	3,333,714	520,708	85,697,722	101,695,040
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 19,448,298	\$ 61,623,802	\$ 7,407,089	\$ 6,904,552	\$ 21,978	\$ 689,923	\$ 688,183	\$ 96,783,825	\$ 85,697,722

MICHIGAN PUBLIC POWER AGENCY

COMBINED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2006

(With Comparative Totals for the Year Ended December 31, 2005)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	Dispatch Project	Transmission Project	General Office Operation	2006	(Memorandum Only) 2005
	\$ 2,872,769	\$ 17,399,195	\$ 762,829	\$ 1,651,262	\$ -	\$ (18,901)	\$ 94,534	\$ 22,761,688	\$ 20,431,030
	1,457,930	11,920,957	519	954,742	-	18,901	37,276	14,390,325	14,141,068
	424,595	5,839,565	(7,341,849)	(62,265)	(395,274)	60,075	434	(1,474,719)	3,241,953
	(148,621)	446,952	-	90,256	-	-	-	388,587	207,713
	-	(105,443)	-	-	-	-	-	(105,443)	(1,993)
	(1,709,877)	(19,701,240)	-	-	-	-	-	(21,411,117)	(6,785,006)
	1,194,983	(3,924,573)	12,007,119	106,121	399,640	577,231	52,824	10,413,345	(2,500,447)
	\$ 4,091,779	\$ 11,875,413	\$ 5,428,618	\$ 2,740,116	\$ 4,366	\$ 637,306	\$ 185,068	\$ 24,962,666	\$ 28,734,318

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating income (loss)
Adjustments to reconcile operating income (loss) to net cash
provided by (used in) operating activities
Depreciation
Changes in assets and liabilities
Accounts receivable
Fuel inventory
Materials and supplies inventory
Deferred revenue
Accounts payable and accrued expense

NET CASH FLOWS FROM OPERATING ACTIVITIES

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET

Current Assets
Restricted Assets

TOTAL CASH AND CASH EQUIVALENTS

\$ 10,670,135	\$ 32,390,311	\$ 7,407,089	\$ 5,176,511	\$ 21,978	\$ 689,923	\$ 673,407	\$ 57,029,354	\$ 45,122,733
8,778,163	29,233,491	-	1,728,041	-	-	14,776	39,754,471	40,574,989
\$ 19,448,298	\$ 61,623,802	\$ 7,407,089	\$ 6,904,552	\$ 21,978	\$ 689,923	\$ 688,183	\$ 96,783,825	\$ 85,697,722

See accompanying notes to financial statements.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 1 – NATURE OF OPERATIONS

Michigan Public Power Agency (MPPA) is a public body politic and corporate of the state of Michigan created in 1978 under Act 448 of the Public Acts of Michigan, 1976, as amended. MPPA was formed to undertake the planning, financing, development, acquisition, construction, improvement, operation and maintenance of projects to supply electric power and energy for the present or future needs of its members. Each MPPA member is a municipal corporation organized under the laws of the state of Michigan and owns and operates a municipal electric system. Of MPPA's thirteen members as of December 31, 2006, ten are participants in the Campbell No. 3 Project, eleven are participants in the Belle River Project, eight are participants in the Power Pool Project, five are participants in the Combustion Turbine No.1 Project, one participates in the Dispatch Project and all participate in the Transmission Project.

BASIS OF PRESENTATION

The financial activities of MPPA are recorded in separate proprietary funds described as follows:

Enterprise Funds

The Campbell No. 3, Belle River, Power Pool Project, Combustion Turbine No. 1, Dispatch and Transmission Funds account for the financing and operation of MPPA's interest in the respective projects, where costs are recovered through participant charges. The accounts of these Funds are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission.

General Office Operations Fund

The General Office Operation Fund accounts for financing, through participant charges, the general and administrative activities of MPPA not related to any specific electric power supply project.

MPPA's financial statements are prepared on the accrual basis of accounting following generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB). As permitted under these GASB established principles, the proprietary funds of MPPA do not apply Financial Accounting Standards Board (FAS) statements and interpretations issued after November 30, 1989, except for FAS 71 and related FAS statements for entities operating in industries subject to regulatory issues.

As required by GASB Statement No. 34, net assets are classified into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt and other obligations* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, obligations, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 1 – NATURE OF OPERATIONS (cont.)

BASIS OF PRESENTATION (cont.)

- *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

BUDGETARY ACCOUNTING

The Board of Commissioners of MPPA adopts an operating budget each year for all funds, on the same basis of accounting used to reflect actual revenues and expenses in the financial statements. The General Manager exercises budgetary control.

USE OF ESTIMATES

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

OPERATING REVENUES

MPPA distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with MPPA’s principal ongoing operations. The principal operating revenues of MPPA are charges to members for sales and services. Operating expenses for MPPA include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 1 – NATURE OF OPERATIONS (cont.)

UTILITY PLANT

Additions to and replacements of utility plant are recorded at original cost including an allowance for borrowed funds. Depreciation is recorded using the straight-line method using service lives of three to 54 years. The agency capitalizes assets with a cost greater than \$500.

Interest is capitalized on utility property acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

INVENTORIES

Fuel inventories for the Belle River Project, Campbell No. 3 Project and the Combustion Turbine No. 1 Project are stated at average cost. The materials and supplies inventory is stated at average cost.

CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents are cash and investments having an initial maturity of three months or less.

INVESTMENTS

Investments are stated at fair market value, based on quoted market prices.

DEFERRED CHARGES

Bond issuance costs, premiums and discounts are deferred and amortized over the life of the bonds based on the effective interest method. Losses on advance refundings occurring after 1993 are deferred and amortized on a straight-line basis over the repayment period of the related debt.

DEFERRED REVENUES

The Agency applies the provisions of Statement of Financial Accounting Standards (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS No. 71). This statement recognizes the effects of operating in a regulatory environment creating future economic benefits and obligations affecting its members. Accordingly, MPPA records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to members through the ratemaking process.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 1 – NATURE OF OPERATIONS (cont.)

DEFERRED REVENUES (cont.)

In order for MPPA to continue to apply the provisions of FAS No. 71, it must continue to meet the following three criteria: (1) MPPA's rates for services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers; (2) MPPA's rates must be designed to recover its costs of providing the services; and (3) in view of the demand for the services and the level of competition, it is reasonable to assume that rates set at levels that will recover MPPA's costs can be charged to and collected from customers.

In accordance with the provisions of FAS 71, revenues collected from members in excess of operating expenses are deferred to future periods when they will be recognized as revenues.

RATES

Members are billed monthly based on estimated usage, with amounts adjusted to actual costs in future month's bills. Accrued revenues are not considered material to these financial statements.

TAXES

MPPA is exempt from State and Federal income taxes.

COMPENSATED ABSENCES

Under terms of employment, employees are granted one and one quarter day of sick leave per month. Employees can accumulate up to sixty-five days of sick leave; however there is no payment for unused sick leave upon termination of employment.

NOTE 2 – JOINT PROJECT OWNERSHIP AGREEMENTS

CAMPBELL UNIT No. 3

MPPA and Consumers Energy Company (Consumers) entered into the following agreements dated October 1, 1979, as amended, relating to Consumers' Campbell Unit No. 3 steam-electric generating unit, which went into commercial operation in September 1980:

The Campbell Ownership Agreement provides for MPPA to own a 4.8% undivided interest in Campbell Unit No. 3, for Consumers to operate Campbell Unit No. 3, for the sale of surplus electric capacity to Consumers, for operating costs of Campbell Unit No. 3 to be shared on a pro rata basis, and for MPPA to purchase an undivided ownership interest in the fuel supply for Campbell Unit No. 3.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 2 – JOINT AGREEMENTS (cont.)

CAMPBELL UNIT No. 3 (cont.)

The Campbell Transmission Agreement provides for MPPA to purchase a 58.06% undivided ownership interest in Consumers' Vergennes to Kenowa-Goss 345 KV transmission line, the method of determining certain charges for utilization of the Consumers transmission system, for the sale to Consumers of planned available transmission capacity in excess of MPPA's need, and for sharing transmission line operating expenses.

The Campbell Back-Up Agreement provides for Consumers to make backup electric capacity and energy available to MPPA from its electric system reserves in the event of total or partial unavailability of capacity and energy from Campbell Unit No. 3, and for determination of the associated backup electric capacity and energy charges to MPPA.

MPPA entered into a Power Sales Contract and a Project Support Contract with each of the ten members who elected to participate in the Campbell No. 3 Project. These contracts provide for the participant to purchase from MPPA the participant's entitlement share, as defined, of the generation and transmission of the Project. Each participant also shares proportionately in the proceeds from MPPA's sale of excess generating and transmission capacity to Consumers. Each participant is obligated to pay its share of the operating and debt service costs of the Project.

BELLE RIVER UNIT No. 1

On December 1, 1982, MPPA and the Detroit Edison Company (Edison) entered into the following agreements, as amended, relating to Edison's Belle River Unit No. 1 steam-electric generating unit, part of a two-unit generating station, which went into commercial operation in August 1984:

The Belle River Participation Agreement provides for MPPA to purchase a 37.22% undivided ownership interest in Belle River Unit No. 1 and an undivided ownership interest in certain common and joint facilities associated with Belle River Unit No. 1, for MPPA to purchase an undivided ownership interest in the fuel supply stockpile, for Edison to operate Belle River Units No. 1 and 2, for the sharing of operating costs of both units, for the sale of surplus electric capacity and energy to Edison, and for backup electric capacity and energy from Edison's electric system reserves to be available in the event of total or partial unavailability of power and energy from Belle River. Pursuant to the reliability exchange provisions in the Agreement, MPPA is entitled to 18.61% of the electric capacity and energy from each of the Belle River Units No. 1 and 2.

The Belle River Transmission Ownership and Operating Agreement with Edison provides for MPPA to purchase a 50.41% undivided ownership interest in Edison's Greenwood-St. Clair-Jewell-Stephens Transmission Line and the Monroe-Wayne-Coventry-Majestic Transmission Line, for Edison to operate the transmission lines, for the sharing of operating costs and for the sale of planned excess transmission capacity to Edison.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 2 – JOINT AGREEMENTS (cont.)

BELLE RIVER UNIT No. 1 (cont.)

MPPA entered into the Belle River Transmission Ownership and Operating Agreement with Consumers, dated December 1, 1982, as amended, which provides MPPA with a 90% undivided ownership interest in certain Consumers-designated transmission lines, for Consumers to operate the transmission lines, for the sharing of operating costs and for the sale to Consumers of planned excess transmission capacity, if any.

MPPA entered into a Power Sales Contract and a Project Support Contract with each of the eleven members who elected to participate in the Belle River Project. These contracts provide for the participants to purchase from MPPA their entitlement share, as defined, of generation and transmission of the Project. Each participant also shares proportionately in MPPA's sale of excess generating and transmission capacity. Each participant is obligated to pay its share of power, transmission, backup, debt service and other project-related costs.

COMBUSTION TURBINE PROJECT No. 1

In 2002, MPPA completed construction of a 50 mW (nominal nameplate rating) simple-cycle combustion turbine generating unit fueled with natural gas (the CT Project No. 1). The unit is located in Kalkaska County, Michigan. The project included construction of natural gas pipeline and metering equipment to connect to Coral Energy, LLC's (Coral) natural gas facilities, a 69 kV electrical line tap and associated equipment to deliver the output of the CT Project No. 1 to the transmission system owned by Wolverine Power Supply Cooperative (Wolverine), and an undivided ownership interest in one or more as yet undesignated extra-high voltage electrical transmission lines on the METC transmission system. MPPA has purchased a parcel of land from Coral and entered into a long-term fuel purchase contract with Coral to supply the CT Project No.1.

MPPA entered into a Power Sales Contract with each of the five members who elected to participate in the CT Project No. 1. These contracts provide for the participants to purchase from MPPA their entitlement share, as defined, of generation and transmission of the Project. Each participant is obligated to pay its share of the operating and debt service costs of the Project.

TRANSMISSION PROJECT

In 2005, the MPPA members contributed capital for the purchase of transmission rights in the bulk transmission system. In 2006, MPPA purchased an undivided ownership in certain transmission lines giving rights to use of the bulk transmission system. All thirteen members participate in this project.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 3 – CASH AND INVESTMENTS

MPPA adopted an investment policy, in accordance with the bond resolutions, that allows it to invest in U.S. Treasury obligations, certain federal agency securities, new Michigan Housing Authority bonds, direct and general obligations of any state, certificates of deposit with qualified United States institutions, repurchase agreements with qualified institutions, municipal obligations, time deposits, bankers' acceptances, commercial paper and pooled investment funds.

CASH AND INVESTMENTS – DECEMBER 31, 2006

	Carrying Value
Restricted Assets	
Certificates of deposit	\$ 14,500
Money market and mutual funds	62,002,946
	<u>62,017,446</u>
Current Assets	
Cash and cash equivalents	
Certificates of deposit	15,000,000
Money market and mutual funds	19,487,424
Demand and savings deposits	278,955
	<u>34,766,379</u>
U.S. Government Agency notes	64,139,887
	<u>98,906,266</u>
Total Cash and Investments	<u>\$ 160,923,712</u>

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

Deposits in banks are insured by the FDIC in the amount of \$100,000 for all interest bearing accounts and \$100,000 for all noninterest bearing accounts.

CUSTODIAL CREDIT RISK

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, MPPA's deposits may not be returned to MPPA. At December 31, 2006 MPPA had \$34,587,944 in uninsured and uncollateralized deposits. MPPA's investment policy does not require collateralization of deposits but rather restricts the financial institutions that can be used based on the equity and market ratings of the financial institution's debt.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, MPPA will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments held at December 31, 2006 were considered to be in risk category one (investments held in trust on behalf of MPPA), therefore, not subject to custodial credit risk. MPPA's policy is to have all investment securities held by its agent in MPPA's name.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 3 – CASH AND INVESTMENTS (cont.)

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2006 MPPA's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & Poor's</u>	<u>Moody's</u>
US Agency Securities	AAA	Aaa
Mutual Funds	AAAm	Aaa

MPPA's investment policy requires that all investments be rated in highest or second highest categories by the national rating agencies.

CONCENTRATIONS OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of MPPA's investment in a single issuer.

At December 31, 2006, investments held with issuers, each totaling more than 5 percent of the total portfolio, were concentrated as follows:

<u>Issuer</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	11%
Federal Home Loan Mortgage Corporation	13%
Federal National Mortgage Association	14%

MPPA's investment policy does not limit the amount of the portfolio that can be invested in US government agency securities or any one issuer of such investments.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

At December 31, 2006 MPPA's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity In Years</u>		
		<u>Less than 1</u>	<u>1 – 5</u>	<u>Over 5</u>
US Government Agency Securities	\$ 64,139,887	\$ 5,486,100	\$ 58,653,787	\$ -
Mutual Funds	62,002,670	62,002,670	-	-
Totals	\$ 126,142,557	\$ 67,488,770	\$ 58,653,787	\$ -

MPPA's investment policy restricts operational funds to maturities of one year or less, reserve and contingency funds to five years or less and debt service reserve funds to fifteen years or less.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 4 – RESTRICTED ASSETS

MPPA's bond resolutions require the segregation of bond proceeds, establishment of various funds, and prescribe the application of MPPA's revenues. Also, it defines what type of securities MPPA may invest in. The funds established by the resolution are detailed in the balance sheet. MPPA is in compliance with all bond resolution funding requirements.

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2006 follows:

	Balance 1/1/06	Additions/ Reclassi- fications	Deletions/ Reclassi- fications	Balance 12/31/06
Capital assets not being depreciated:				
Land	\$ 598,889	\$ -	\$ -	\$ 598,889
Capital assets being depreciated:				
Utility Plant in Service	524,676,765	15,696,275	-	540,373,040
Less: Accumulated Depreciation	<u>(288,628,133)</u>	<u>(14,390,326)</u>	<u>1,616,438</u>	<u>(301,402,021)</u>
Net Utility Plant	<u>\$ 236,647,521</u>			<u>\$ 239,569,908</u>

NOTE 6 – LONG-TERM DEBT

CAMPBELL NO. 3 PROJECT REVENUE BONDS

The following bonds have been issued by MPPA:

Date	Purpose	Final Maturity	Interest Rates	Original Amount
July 15, 1997	Refund 1989 construction bonds	1/1/09	5.5%	\$ 24,925,000
May 1, 2002	Finance cost of improvements	1/1/13	4.0 – 4.25%	11,000,000
Jan 15, 2006	Finance cost of improvements	01/01/16	5.0%	9,000,000

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 6 – LONG-TERM DEBT (cont.)

CAMPBELL NO. 3 PROJECT REVENUE BONDS (cont.)

The following obligations are outstanding at December 31:

	<u>2006</u>
1997A bonds	\$ 8,780,000
Unamortized loss 1997A advanced refunding transaction	(175,772)
Unamortized premium on 1997A bonds	34,170
2002A bonds	11,000,000
2006A bonds	9,000,000
Unamortized premium on 2006A bonds	677,460
	<u>29,315,858</u>
Less: Current portion	<u>(2,770,000)</u>
Total	<u>\$ 26,545,858</u>

MPPA's annual debt service requirements are collected from participating member municipalities and from transfers from the project account during the period preceding the required interest and principal payments. Debt service requirements to be collected during each of the five years following December 31, 2006, and in five-year increments thereafter to maturity, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,925,000	\$ 1,233,375	\$ 4,158,375
2008	3,085,000	1,072,500	4,157,500
2009	2,570,000	902,825	3,472,825
2010	2,690,000	800,025	3,490,025
2011	2,810,000	689,735	3,499,735
2012 – 2016	11,930,000	1,474,525	13,404,525
Totals	<u>\$ 26,010,000</u>	<u>\$ 6,172,985</u>	<u>\$ 32,182,985</u>

Substantially all revenues of the Campbell No. 3 Project are pledged until the debt is defeased.

Long-term liabilities as of December 31, 2006:

<u>Long-Term Liabilities</u>	<u>1/1/06 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/06 Balance</u>
Revenue bonds	\$ 22,400,000	\$ 9,000,000	\$ (2,620,000)	\$ 28,780,000
Unamortized loss on advanced refunding transaction	(351,644)	-	175,872	(175,772)
Unamortized premium on bonds	67,156	758,850	(114,376)	711,630
Current maturities	(2,620,000)	-	(150,000)	(2,770,000)
Total Long-Term Liabilities	<u>\$ 19,495,512</u>	<u>\$ 9,758,850</u>	<u>\$ (2,708,504)</u>	<u>\$ 26,545,858</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 6 – LONG-TERM DEBT (cont.)

BELLE RIVER PROJECT REVENUE BONDS

The following bonds have been issued by MPPA:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>
December 2, 2002	Refund 1993A&B bonds	1/1/18	2.35 – 5.25%	\$ 280,180,000

The following obligations are outstanding at December 31:

	<u>2006</u>
2002A bonds	\$ 240,445,000
Unamortized loss 2002A advanced refunding transaction	(9,583,651)
Unamortized premium on 2002A bonds	<u>14,505,661</u>
	245,367,010
Less: Current portion	<u>(14,975,000)</u>
Total	<u><u>\$ 230,392,010</u></u>

MPPA's annual debt service requirements are collected from participating member municipalities and from transfers from the project account during the period preceding the required interest and principal payments. Debt service requirements to be collected during each of the five years following December 31, 2006, and in five-year increments thereafter to maturity, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 15,685,000	\$ 11,810,780	\$ 27,495,780
2008	16,505,000	10,987,318	27,492,318
2009	17,350,000	10,142,805	27,492,805
2010	18,265,000	9,231,930	27,496,930
2011	19,220,000	8,276,813	27,496,813
2012 – 2016	112,320,000	25,150,912	137,470,912
2017	<u>26,125,000</u>	<u>1,371,562</u>	<u>27,496,562</u>
Totals	<u><u>\$ 225,470,000</u></u>	<u><u>\$ 76,972,120</u></u>	<u><u>\$ 302,442,120</u></u>

Substantially all revenues of the Belle River Project are pledged until the debt is defeased.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 6 – LONG-TERM DEBT (cont.)

BELLE RIVER PROJECT REVENUE BONDS (cont.)

Long-term liabilities as of December 31, 2006:

<u>Long-Term Liabilities</u>	<u>1/1/06 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/06 Balance</u>
Revenue bonds	\$ 254,720,000	\$ -	\$ (14,275,000)	\$ 240,445,000
Unamortized loss on advanced refunding transaction	(11,142,116)	-	1,558,465	(9,583,651)
Unamortized premium on bonds	17,178,253	-	(2,672,592)	14,505,661
Current maturities	(14,275,000)	-	(700,000)	(14,975,000)
Total Long-Term Liabilities	<u>\$ 246,481,137</u>	<u>\$ -</u>	<u>\$ (16,089,127)</u>	<u>\$ 230,392,010</u>

COMBUSTION TURBINE NO. 1 PROJECT REVENUE BONDS

The following bonds have been issued by MPPA:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>
January 10, 2002	Building of turbine	1/1/27	3.75 – 5.4%	\$ 34,645,000

The following obligations are outstanding at December 31:

	<u>2006</u>
2002A bonds	\$ 32,125,000
Less: Unamortized discount on 2002A bonds	(48,645)
Sub-total	32,076,355
Less: Current portion	(905,000)
Total	<u>\$ 31,171,355</u>

MPPA's annual debt service requirements are collected from participating member municipalities and from transfers from the project account during the period preceding the required interest and principal payments. Debt service requirements to be collected during each of the five years following December 31, 2006, and in five-year increments thereafter to maturity, are as follows:

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 6 – LONG-TERM DEBT (cont.)

COMBUSTION TURBINE NO. 1 PROJECT REVENUE BONDS (cont.)

Year Ending December 31,	Principal	Interest	Total
2007	\$ 945,000	\$ 1,608,750	\$ 2,553,750
2008	985,000	1,566,225	2,551,225
2009	1,030,000	1,521,900	2,551,900
2010	1,080,000	1,475,550	2,555,550
2011	1,125,000	1,426,950	2,551,950
2012 – 2016	6,580,000	6,183,975	12,763,975
2017 – 2021	8,500,000	4,265,625	12,765,625
2022 – 2027	10,975,000	1,787,625	12,762,625
Totals	<u>\$ 31,220,000</u>	<u>\$ 19,836,600</u>	<u>\$ 51,056,600</u>

Substantially all revenues of the Combustion Turbine No. 1 Project are pledged until the debt is defeased.

Long-term liabilities as of December 31, 2006:

<u>Long-Term Liabilities</u>	<u>1/1/06 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/06 Balance</u>
Revenues bonds	\$ 32,995,000	\$ -	\$ (870,000)	\$ 32,125,000
Unamortized discount on term bonds	(52,682)	-	4,037	(48,645)
Current maturities	<u>(870,000)</u>	<u>-</u>	<u>(35,000)</u>	<u>(905,000)</u>
Total Long-Term Liabilities	<u>\$ 32,072,318</u>	<u>\$ -</u>	<u>\$ (900,963)</u>	<u>\$ 31,171,355</u>

NOTE 7 – EMPLOYEE RETIREMENT PLAN

MPPA employees are covered by a defined contribution retirement pension plan. MPPA makes an annual contribution based on a percentage of employee earnings on behalf of each employee. Total contributions to the plan by MPPA for the years ended December 31, 2006, 2005 and 2004 were approximately \$200,000, \$179,000, and \$172,000, respectively.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 8 – CONTRACTS AND COMMITMENTS

CONTRACT WITH CONSUMERS ENERGY

MPPA contracted with Consumers to purchase fuel coal in order to maintain a stockpile level of 21,247 wet tons (21,261 in 2005) for the Campbell Unit No. 3 plant. The coal is purchased at the prevailing market price at the time of delivery. MPPA also purchased an additional stockpile of coal as substitute for its proportionate interest in the materials and supply inventory at Campbell Unit No. 3. This stockpile is maintained at a level to approximate MPPA's ownership interest in the materials and supply inventory at the Campbell plant.

CONTRACT WITH DETROIT EDISON

MPPA's share of the stockpile of coal for the Belle River plant equals 260,500 tons.

CONTRACT WITH CORAL ENERGY

MPPA contracted with Coral Energy for natural gas for the CT Project No.1. The contract expires in 2012.

NOTE 9 – RISK MANAGEMENT

MPPA is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 10 – CONCENTRATION OF RISK

Credit risk represents the risk of loss that would occur if customers do not meet their financial obligations to MPPA. Concentration of risk occurs when significant customers possess similar characteristics that would cause their ability to meet contractual obligations to be affected by the same events.

MPPA has one member who is considered a significant customer that accounted for \$16.7 million (11%) of MPPA revenues in 2006.

NOTE 11 – CONTINGENCIES

MPPA owns certain transmission assets for which it has an operation and maintenance agreement with the International Transmission Company (ITC). Certain amounts which have been billed by ITC and recognized by MPPA as expenses and liabilities are under dispute at this time. In addition, the treatment of MISO revenues related to these assets is being debated. Management and their legal council cannot predict the outcome of future negotiations between the parties on these issues.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 12 – BOND COVENANT DISCLOSURES

CAMPBELL No. 3 PROJECT

Compliance with Funding Requirements

MPPA is in compliance with bond funding requirements.

Debt Service Coverage

	<u>2006</u>
Operating revenues	\$ 17,153,744
Other revenues	<u>2,659,174</u>
	<u>19,812,918</u>
Operating expenses	14,280,975
Less: Depreciation	<u>(1,457,930)</u>
	<u>12,823,045</u>
Net revenues	<u>6,989,873</u>
Debt service	4,138,225
	x <u>1.10</u>
Required revenues	<u>4,552,048</u>
Revenues in Excess of Coverage Requirements	<u>\$ 2,437,825</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 12 – BOND COVENANT DISCLOSURES (cont.)

BELLE RIVER PROJECT

Compliance with Funding Requirements

MPPA is in compliance with bond funding requirements.

Debt Service Coverage

	<u>2006</u>
Operating revenues	\$ 67,479,432
Other revenues	<u>21,635,875</u>
	<u>89,115,307</u>
Operating expenses	50,080,237
Less: Depreciation	<u>(11,920,957)</u>
	<u>38,159,280</u>
Net Revenues	<u>50,956,072</u>
Debt service	<u>27,491,980</u>
Revenues in Excess of Coverage Requirements	<u><u>\$ 23,464,047</u></u>

COMBUSTION TURBINE NO. 1 PROJECT

Compliance with Funding Requirements

MPPA is in compliance with bond funding requirements.

Debt Service Coverage

	<u>2006</u>
Operating revenues	\$ 4,715,170
Other revenues	<u>298,328</u>
	<u>5,013,498</u>
Operating expenses	3,063,908
Less: Depreciation	<u>(954,742)</u>
	<u>2,109,166</u>
Net Revenues	<u>2,904,332</u>
Debt service	2,551,081
	x <u>1.10</u>
Required revenues	<u>2,806,189</u>
Revenues in Excess of Coverage Requirements	<u><u>\$ 98,143</u></u>

SUPPLEMENTAL INFORMATION

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE CAMPBELL NO. 3 PROJECT REVENUE BOND RESOLUTION Year Ended December 31, 2006

	Debt Service Account	Revenue Account	Operation and Maintenance Account	Operation and Maintenance Reserve Account	Fuel Reserve Account	Construction Account	Project Account	Totals
Cash and investments at January 1, 2006	\$ 3,159,913	\$ -	\$ 1,289,867	\$ 250,000	\$ 800,000	\$ 223,450	\$ 6,980,700	\$ 12,703,930
Receipts	-	15,998,914	1,374,008	-	-	-	-	17,372,922
Investment receipts	85,163	-	482,429	-	-	353,830	-	921,422
Proceeds from bonds						9,627,349		9,627,349
Payment of interest on bonds	(1,201,525)	-	-	-	-	-	-	(1,201,525)
Payment of bond principal	(2,620,000)	-	-	-	-	-	-	(2,620,000)
Disbursements	-	(6,571,965)	(10,783,835)	-	-	-	-	(17,355,800)
Transfers - net	4,039,312	(9,426,949)	8,776,966	-	-	(4,889,329)	1,500,000	-
CASH AND INVESTMENTS AT DECEMBER 31, 2006	\$ 3,462,863	\$ -	\$ 1,139,435	\$ 250,000	\$ 800,000	\$ 5,315,300	\$ 8,480,700	\$ 19,448,298

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE BELLE RIVER PROJECT REVENUE BOND RESOLUTION Year Ended December 31, 2006

	Debt Service Account	Debt Service Reserve Account	Reserve and Contingency Account	Revenue Account	Operation and Maintenance Account	Project Account	Totals
Cash and investments at January 1, 2006	\$ 20,886,059	\$ -	\$ 8,663,060	\$ -	\$ 11,345,209	\$ 82,253,704	\$ 123,148,032
Receipts	-	-	-	54,591,560	13,370,545	16,021,000	83,983,105
Investment receipts	529,114	-	421,270	-	448,903	3,966,145	5,365,432
Net Increase (decrease) in fair value of investments	-	-	-	-	-	109,659	109,659
Payment of interest on bonds	(12,869,549)	-	-	-	-	-	(12,869,549)
Payment of bond principal	(14,275,000)	-	-	-	-	-	(14,275,000)
Disbursements	-	-	-	-	(42,666,015)	(17,031,975)	(59,697,990)
Transfers – net	26,962,866	-	(1,084,329)	(54,591,560)	27,628,694	1,084,329	-
CASH AND INVESTMENTS AT DECEMBER 31, 2006	\$ 21,233,490	-	\$ 8,000,001	\$ -	\$ 10,127,336	\$ 86,402,862	\$ 125,763,689

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - CAMPBELL NO. 3 PROJECT

	2006 Budget	2006 Actual	2005 Actual	2006 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 7,190,910	\$ 6,384,245	\$ 6,233,731	\$ (806,665)
Backup capacity	660,000	562,665	507,132	(97,335)
Transmission	349,184	320,186	287,032	(28,998)
Energy (fuel)	5,600,000	5,560,267	5,228,940	(39,733)
Backup energy	4,300,000	4,297,540	1,626,623	(2,460)
Transmission utilization	-	28,841	57,861	28,841
Total Sales to Participants	18,100,094	17,153,744	13,941,319	(946,350)
Less allowance for sellback				
Transmission	-	(4,080)	-	(4,080)
Net Sales to Participants	18,100,094	17,149,664	13,941,319	(950,430)
Sales of Excess Capacity				
Transmission	-	4,080	-	4,080
Total Operating Revenue	18,100,094	17,153,744	13,941,319	(946,350)
OPERATING EXPENSES				
Production				
Fuel	5,600,000	5,560,267	5,228,940	(39,733)
Operation	1,358,500	640,226	1,553,404	(718,274)
Maintenance	883,400	800,737	412,907	(82,663)
Total Production	7,841,900	7,001,230	7,195,251	(840,670)
Purchased Power				
Backup capacity	660,000	562,665	507,132	(97,335)
Backup energy	4,300,000	4,297,540	1,626,623	(2,460)
Total Purchased Power	4,960,000	4,860,205	2,133,755	(99,795)
Transmission				
Operation	57,000	35,684	56,053	(21,316)
Maintenance	6,000	20,055	395	14,055
Utilization	-	28,841	57,861	28,841
Total Transmission	63,000	84,580	114,309	21,580
General and Administrative				
Salaries and wages	185,916	201,606	184,797	15,690
Employee benefits	291,816	322,881	148,842	31,065
Outside services	99,384	86,650	82,009	(12,734)
Taxes	60,000	55,841	49,525	(4,159)
Insurance and liability	183,168	134,722	115,452	(48,446)
Meetings and travel	7,332	4,601	4,668	(2,731)
Office supplies	20,328	29,081	11,365	8,753
Rents	13,920	8,689	7,365	(5,231)
Miscellaneous	28,194	32,959	9,161	4,765
Total General and Administrative	890,058	877,030	613,184	(13,028)

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - CAMPBELL NO. 3 PROJECT (cont.)

	2006 Budget	2006 Actual	2005 Actual	2006 Actual Over (Under) Budget
OPERATING EXPENSES (cont.)				
Depreciation	\$ 1,500,000	\$ 1,457,930	\$ 1,365,285	\$ (42,070)
Total Operating Expense	<u>15,254,958</u>	<u>14,280,975</u>	<u>11,421,784</u>	<u>(973,983)</u>
Operating Income	<u>2,845,136</u>	<u>2,872,769</u>	<u>2,519,535</u>	<u>27,633</u>
OTHER EXPENSES				
Interest cost incurred	1,368,228	1,354,475	1,079,825	(13,753)
Amortization of financing-related costs	<u>139,968</u>	<u>139,704</u>	<u>193,335</u>	<u>(264)</u>
Total Other Expenses	<u>1,508,196</u>	<u>1,494,179</u>	<u>1,273,160</u>	<u>(14,017)</u>
OTHER REVENUES				
Investment income	207,600	949,297	373,796	741,697
Sale of emission allowances	<u>1,687,700</u>	<u>1,709,877</u>	<u>-</u>	<u>22,177</u>
Total Other Income	<u>1,895,300</u>	<u>2,659,174</u>	<u>373,796</u>	<u>763,874</u>
Income before deferred revenue	<u>\$ 3,232,240</u>	4,037,764	1,620,171	<u>\$ 805,524</u>
Deferred revenue to be recognized in future periods		<u>(4,037,764)</u>	<u>(1,620,171)</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - BELLE RIVER PROJECT

	2006 Budget	2006 Actual	2005 Actual	2006 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 43,458,568	\$ 37,860,229	\$ 43,956,929	\$ (5,598,339)
Backup capacity	300,000	52,507	726,842	(247,493)
Transmission	3,320,052	7,011,056	4,655,866	3,691,004
Energy (fuel)	23,065,542	22,311,230	22,614,387	(754,312)
Backup energy	4,100,697	259,437	2,772,770	(3,841,260)
Transmission utilization	-	(15,027)	118,100	(15,027)
Total Sales to Participants	<u>74,244,859</u>	<u>67,479,432</u>	<u>74,844,894</u>	<u>(6,765,427)</u>
Less allowance for sellback				
Transmission	-	(665,925)	(211,811)	-
Net Sales to Participants	<u>74,244,859</u>	<u>66,813,507</u>	<u>74,633,083</u>	<u>(6,765,427)</u>
Sales of Excess Capacity				
Transmission	-	665,925	-	665,925
Total Operating Revenue	<u>74,244,859</u>	<u>67,479,432</u>	<u>74,633,083</u>	<u>(6,099,502)</u>
OPERATING EXPENSES				
Production				
Fuel	23,065,542	22,311,230	22,614,387	(754,312)
Operation	5,700,000	1,792,549	4,965,894	(3,907,451)
Maintenance	4,200,000	5,583,966	5,917,150	1,383,966
Total Production	<u>32,965,542</u>	<u>29,687,745</u>	<u>33,497,431</u>	<u>(3,277,797)</u>
Purchased Power				
Backup capacity	300,000	52,507	726,842	(247,493)
Backup energy	4,100,697	259,437	2,772,770	(3,841,260)
Total Purchased Power	<u>4,400,697</u>	<u>311,944</u>	<u>3,499,612</u>	<u>(4,088,753)</u>
Transmission				
Operation	306,000	722,546	1,496,317	416,546
Maintenance	636,000	786,743	28,056	150,743
Utilization	-	(15,027)	118,100	(15,027)
Total Transmission	<u>942,000</u>	<u>1,494,262</u>	<u>1,642,473</u>	<u>552,262</u>
General and Administrative				
Salaries and wages	1,187,688	1,492,528	1,195,116	304,840
Employee benefits	4,654,200	2,965,096	4,339,187	(1,689,104)
Outside services	698,538	1,035,724	800,779	337,186
Taxes	720,000	520,528	602,378	(199,472)
Insurance and liability	249,402	457,373	281,966	207,971
Meetings and travel	21,768	14,697	17,990	(7,071)
Office supplies	610,512	756,600	546,007	146,088
Rents	32,690	21,882	(9,125)	(10,808)
Miscellaneous	242,966	(599,099)	695,276	(842,065)
Total General and Administrative	<u>8,417,764</u>	<u>6,665,329</u>	<u>8,469,574</u>	<u>(1,752,435)</u>

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - BELLE RIVER PROJECT (cont.)

	2006 Budget	2006 Actual	2005 Actual	2006 Actual Over (Under) Budget
OPERATING EXPENSES (cont.)				
Depreciation	\$ 12,000,000	\$ 11,920,957	\$ 11,881,241	\$ (79,043)
Total Operating Expense	<u>58,726,003</u>	<u>50,080,237</u>	<u>58,990,331</u>	<u>(8,645,766)</u>
Operating Income	<u>15,518,856</u>	<u>17,399,195</u>	<u>15,642,752</u>	<u>2,546,264</u>
OTHER EXPENSES				
Interest cost incurred	12,516,980	12,516,980	13,222,118	-
Amortization of financing-related costs	<u>(813,204)</u>	<u>(813,203)</u>	<u>(976,532)</u>	<u>1</u>
Total Other Expenses	<u>11,703,776</u>	<u>11,703,777</u>	<u>12,245,586</u>	<u>1</u>
OTHER REVENUES				
Investment income	3,540,000	5,503,823	4,078,706	1,963,823
Net change in fair value of investments	-	109,659	(1,354,995)	109,659
Sale of emission allowances	<u>16,015,000</u>	<u>16,132,052</u>	<u>-</u>	<u>117,052</u>
Total Other Income	<u>19,555,000</u>	<u>21,745,534</u>	<u>2,723,711</u>	<u>2,190,534</u>
Income (loss) before deferred revenue	<u>\$ 23,370,080</u>	<u>27,440,952</u>	<u>6,120,877</u>	<u>\$ 4,736,797</u>
Deferred revenue to be recognized in future periods		<u>(27,440,952)</u>	<u>(6,120,877)</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - POWER POOL PROJECT

	2006 Budget	2006 Actual	2005 Actual	2006 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 46,550,266	\$ 39,274,156	\$ 41,490,326	\$ (7,276,110)
Capacity	12,833,132	17,188,549	14,067,635	4,355,417
Transmission	2,403,072	808,496	6,848,467	(1,594,576)
Total Operating Revenue	<u>61,786,470</u>	<u>57,271,201</u>	<u>62,406,428</u>	<u>(4,515,269)</u>
OPERATING EXPENSES				
Purchased Power				
Capacity	12,833,132	17,183,851	14,007,042	4,350,719
Energy	43,788,925	37,108,018	40,107,145	(6,680,907)
Total Purchased Power	<u>56,622,057</u>	<u>54,291,869</u>	<u>54,114,187</u>	<u>(2,330,188)</u>
Transmission				
Wheeling	<u>2,403,072</u>	<u>826,514</u>	<u>7,009,147</u>	<u>(1,576,558)</u>
General and Administrative				
Salaries and wages	409,800	405,434	388,029	(4,366)
Employee benefits	196,752	229,688	200,705	32,936
Outside services	623,491	665,590	658,282	42,099
Insurance and liability	12,031	10,096	8,976	(1,935)
Meetings and travel	27,852	15,752	15,266	(12,100)
Office supplies	13,404	21,938	11,951	8,534
Rents	30,083	25,682	22,202	(4,401)
Miscellaneous	13,460	15,290	8,176	1,830
Total General and Administrative	<u>1,326,873</u>	<u>1,389,470</u>	<u>1,313,587</u>	<u>62,597</u>
Depreciation	<u>365</u>	<u>519</u>	<u>358</u>	<u>154</u>
Total Operating Expense	<u>60,352,367</u>	<u>56,508,372</u>	<u>62,437,279</u>	<u>(3,843,995)</u>
Operating Loss	<u>1,434,103</u>	<u>762,829</u>	<u>(30,851)</u>	<u>(671,274)</u>
OTHER EXPENSES				
Interest costs incurred	<u>140,376</u>	<u>110,370</u>	<u>65,986</u>	<u>(30,006)</u>
OTHER REVENUES				
Investment income	<u>36,000</u>	<u>246,720</u>	<u>50,648</u>	<u>210,720</u>
Loss before deferred revenue	<u>\$ 1,329,727</u>	<u>899,179</u>	<u>(46,189)</u>	<u>\$ (430,548)</u>
Deferred revenue to be recognized in future periods		(899,179)		
Deferred revenue recognized in current period		<u>-</u>	<u>46,189</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - COMBUSTION TURBINE NO. 1 PROJECT

	2006 Budget	2006 Actual	2005 Actual	2006 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 4,088,368	\$ 4,060,752	\$ 4,104,513	\$ (27,616)
Transmission	-	158,971	8,312	158,971
Energy (fuel)	3,612,152	495,447	593,715	(3,116,705)
Total Operating Revenue	<u>7,700,520</u>	<u>4,715,170</u>	<u>4,706,540</u>	<u>(2,985,350)</u>
OPERATING EXPENSES				
Production				
Fuel	3,612,152	568,082	593,715	(3,044,070)
Operation	568,200	753,604	806,914	185,404
Maintenance	482,560	35,258	52,317	(447,302)
Total Production	<u>4,662,912</u>	<u>1,356,944</u>	<u>1,452,946</u>	<u>(3,305,968)</u>
Transmission				
Operation	-	157,908	8,312	157,908
Maintenance	-	1,063	-	1,063
Total Transmission	<u>-</u>	<u>158,971</u>	<u>8,312</u>	<u>158,971</u>
General and Administrative				
Salaries and wages	232,052	193,450	162,750	(38,602)
Employee benefits	37,008	87,200	66,378	50,192
Outside services	69,022	271,441	169,449	202,419
Taxes		8,288	6,763	8,288
Insurance and liability	2,258	1,892	2,361	(366)
Meetings and travel	8,832	17,127	13,617	8,295
Office supplies	2,520	6,709	9,357	4,189
Rents	5,652	6,039	7,794	387
Miscellaneous	1,624	1,105	842	(519)
Total General and Administrative	<u>358,968</u>	<u>593,251</u>	<u>439,311</u>	<u>234,283</u>

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - COMBUSTION TURBINE NO. 1 PROJECT (cont.)

	2006 Budget	2006 Actual	2005 Actual	2006 Actual Over (Under) Budget
OPERATING EXPENSES (cont.)				
Depreciation	\$ 858,000	\$ 954,742	\$ 858,935	\$ 96,742
Total Operating Expense	<u>5,879,880</u>	<u>3,063,908</u>	<u>2,759,504</u>	<u>(2,815,972)</u>
Operating Income	<u>1,820,640</u>	<u>1,651,262</u>	<u>1,947,036</u>	<u>(169,378)</u>
OTHER EXPENSES				
Interest cost incurred	1,646,081	1,646,081	1,680,881	-
Amortization of financing-related costs	<u>59,515</u>	<u>59,515</u>	<u>60,773</u>	-
Total Other Expenses	<u>1,705,596</u>	<u>1,705,596</u>	<u>1,741,654</u>	-
OTHER REVENUES				
Investment income	180,000	298,328	268,125	118,328
Net change in fair value of investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Income	<u>180,000</u>	<u>298,328</u>	<u>268,125</u>	<u>118,328</u>
Income before deferred revenue	<u>\$ 295,044</u>	<u>243,994</u>	<u>473,507</u>	<u>\$ (51,050)</u>
Deferred revenue to be recognized in future periods		<u>(243,994)</u>	<u>(473,507)</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - DISPATCH PROJECT

	2006 Budget	2006 Actual	2005 Actual	2006 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 3,355,360	\$ 3,355,360	\$ 1,475,209	\$ -
Total Operating Revenue	<u>3,355,360</u>	<u>3,355,360</u>	<u>1,475,209</u>	<u>-</u>
OPERATING EXPENSES				
Purchased Power				
Energy	3,245,000	3,244,572	1,407,476	(428)
Total Purchased Power	<u>3,245,000</u>	<u>3,244,572</u>	<u>1,407,476</u>	<u>(428)</u>
General and Administrative				
Salaries and wages	52,704	47,930	42,304	(4,774)
Employee benefits	31,100	31,154	25,382	54
Outside services	21,000	20,947	-	(53)
Taxes	-	-	-	-
Insurance and liability	1,752	1,476	-	(276)
Meetings and travel	4,056	2,523	47	(1,533)
Office supplies	1,980	2,418	-	438
Rents	4,435	3,748	-	(687)
Miscellaneous	328	592	-	264
Total General and Administrative	<u>117,355</u>	<u>110,788</u>	<u>67,733</u>	<u>(6,567)</u>
Total Operating Expense	<u>3,362,355</u>	<u>3,355,360</u>	<u>1,475,209</u>	<u>(6,995)</u>
OTHER REVENUES				
Investment income	7,000	7,016	-	16
Net change in fair value of investments	-	-	-	-
Total Other Income	<u>7,000</u>	<u>7,016</u>	<u>-</u>	<u>16</u>
Income before deferred revenue	<u>\$ 5</u>	<u>7,016</u>	<u>-</u>	<u>\$ 5,478</u>
Deferred revenue to be recognized in future periods		(7,016)	-	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - TRANSMISSION PROJECT

	2006 Budget	2006 Actual	2005 Actual	2006 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Transmission	\$ 179,000	\$ 178,585	\$ 179,461	\$ (415)
Total Sales to Participants	<u>179,000</u>	<u>178,585</u>	<u>179,461</u>	<u>(415)</u>
Less Allowances for Sellback				
Transmission	2,540,000	2,539,624	-	(376)
Sales of Excess Capacity				
Transmission	2,590,000	2,590,064	-	64
Total Operating Revenue	<u>229,000</u>	<u>229,025</u>	<u>179,461</u>	<u>25</u>
OPERATING EXPENSES				
Transmission				
Operation	172,000	172,724	-	724
Maintenance	-	-	-	-
Total Transmission	<u>172,000</u>	<u>172,724</u>	<u>-</u>	<u>724</u>
General and Administrative				
Salaries and wages	5,000	4,683	1,796	(317)
Employee benefits	3,250	3,044	1,077	(206)
Outside services	50,400	48,293	1,140	(2,107)
Taxes	-	-	-	-
Insurance and liability	-	-	-	-
Meetings and travel	-	281	-	281
Office supplies	-	-	-	-
Rents	-	-	-	-
Miscellaneous	-	-	-	-
Total General and Administrative	<u>58,650</u>	<u>56,301</u>	<u>4,013</u>	<u>(2,349)</u>
Depreciation	18,900	18,901	-	1
Total Operating Expense	<u>249,550</u>	<u>247,926</u>	<u>4,013</u>	<u>(1,624)</u>
OTHER REVENUES				
Investment income	54,000	54,414	3,348	414
Net change in fair value of investments	-	-	-	-
Total Other Income	<u>54,000</u>	<u>54,414</u>	<u>3,348</u>	<u>414</u>
Income before deferred revenue	<u>\$ 33,450</u>	<u>35,513</u>	<u>178,796</u>	<u>\$ 2,319</u>
Deferred revenue to be recognized in future periods		<u>(35,513)</u>	<u>(178,796)</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - GENERAL OFFICE OPERATION

	2006 Budget	2006 Actual	2005 Actual	2006 Actual Over (Under) Budget
OPERATING REVENUES				
Participant membership fees	\$ 470,926	\$ 457,492	\$ 504,379	\$ (13,434)
Charges for Services				
Projects	116,250	116,244	187,268	(6)
MMEA	239,954	231,961	221,592	(7,993)
Total Operating Revenue	<u>827,130</u>	<u>805,697</u>	<u>913,239</u>	<u>(21,433)</u>
OPERATING EXPENSES				
General and Administrative				
Salaries and wages	269,136	255,499	236,527	(13,637)
Employee benefits	148,032	166,075	141,916	18,043
Outside services	161,686	79,537	155,728	(82,149)
Insurance and liability	5,089	4,263	5,435	(826)
Meetings and travel	38,184	23,058	29,493	(15,126)
Office supplies	10,104	25,503	9,817	15,399
Rents	22,620	19,383	23,217	(3,237)
Miscellaneous	125,534	124,569	122,747	(965)
Total General and Administrative	<u>780,385</u>	<u>697,887</u>	<u>724,880</u>	<u>(82,498)</u>
Depreciation	<u>26,604</u>	<u>37,276</u>	<u>35,249</u>	<u>10,672</u>
Total Operating Expense	<u>806,989</u>	<u>735,163</u>	<u>760,129</u>	<u>(71,826)</u>
 Operating Income (Loss)	 <u>20,141</u>	 <u>70,534</u>	 <u>153,110</u>	 <u>50,393</u>
OTHER REVENUES				
Interest income	-	34,047	15,647	34,047
Prepaid lease income	<u>24,000</u>	<u>24,000</u>	<u>24,000</u>	<u>-</u>
 CHANGE IN NET ASSETS	 <u>\$ 44,141</u>	 <u>\$ 128,581</u>	 <u>\$ 192,757</u>	 <u>\$ 84,440</u>